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The balancing act: US recession 2020 and the Federal Reserve

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Abstract. The paper shows that there is a tradeoff between higher wages and higher employment when Federal Reserve through its monetary policy tools is trying to avoid a looming recession. The paper also explains the rationale behind President Donald Trump's industrial policy and timely actions by the Fed to raise interest rates by presenting it not as contradictions but as conciliation measures. The paper utilizes unique perception based data collected by world economic survey on some key indicators of the US economy to discuss a strong possibility of mild economic recession in 2020 in the US. However, it is expected that the Federal Reserve would take some timely measures like the devaluation of US dollar and decreasing interest rates that may off set the drastic effects of a continuing trade war with China on the external sector of the country. The economic policies of Trump administration have brought greater focus to industrial labor that has strengthened the white supremacy rhetoric in the country. The concept paper discusses specific activity based informal education exercise in the schools in US that may help the young population in the country to consolidate with diversity and reject populism of dissent against diversity and movements of white supremacy.

Keywords. Federal Reserve, Balancing act, US recession.

JEL. A14, B24, B51.

1. Introduction

Figure 1 represents parabolic equilibriums within money markets and labor markets within United States. In case of a recession United States finds itself at a steady state represented by FF' line where both interest rates and wages are low and most of the Americans are jobless creating democratic outcomes that may present racial discrimination of prosperous minorities as it is witnessed recently. However, the Federal Reserve intervenes and increases the interest rates in the economy that makes capital more expensive than the labor and the economy starts investing more on labor resulting in steep rise in employment levels within the economy bringing racial, ethical and social harmony to the society. Services sector that is capital intensive squeezes whereas industrial and agricultural sectors prosper. Soon the looming recession in United States is addressed by this monetary tool and interest rates are decreased once again and wages fall down to a steady state GG' where capital is promoted instead, and firms' investments improve and higher economic activity

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enables the economy to employ more from the cheap labor force with prosperity fundamentally distributed among employers and employees.

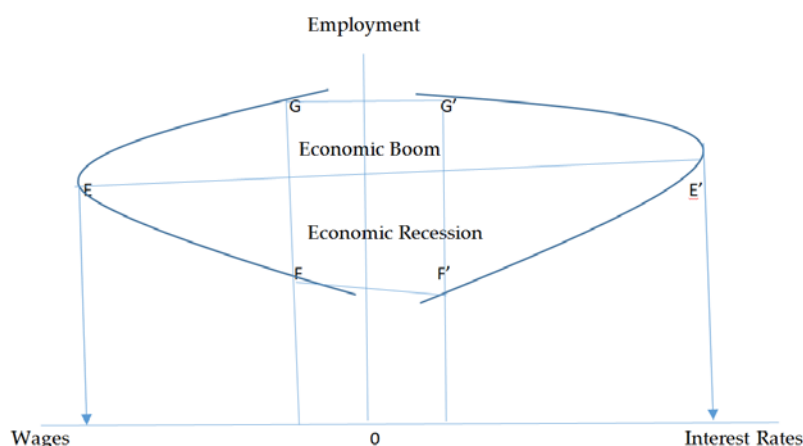


Figure 1. Recession versus Economic Boom

Indeed, in a capitalist economy like United States there is always a trade off between higher wages and higher employment as can be seen in EE' and GG' lines. Focus on active industrialization through promotion of labor force may work but not for long and the higher dividends of capital intensive investments eventually bring sectors like services back to the fore once interest rates are brought down and where wages might not be as high as before but economy is witnessing a boom. In a nutshell the above diagram and the discussion that follows clearly shows that unlike claims of Trump Supporters, Federal Reserve is not working against the policies of President Trump or at least not yet when there is a risk of a recession. (see for example, [Conti-Brown, 2017](#); [Meade, 2017](#); and [Sabrin, 2019](#)).

2. Perceptions on the US economy

There is a controversy in perceptions between GOP and the Federal Reserve on US monetary policy on quantitative easing. The GOP thinks that Federal Reserve needs to ease the monetary policy by decreasing interest rates. Though there are claims by the GOP that the US economy is performing quite well and employment numbers are highest in decades, the controversial trade war with China has benefitted the blue collar workers and services sector has squeezed.

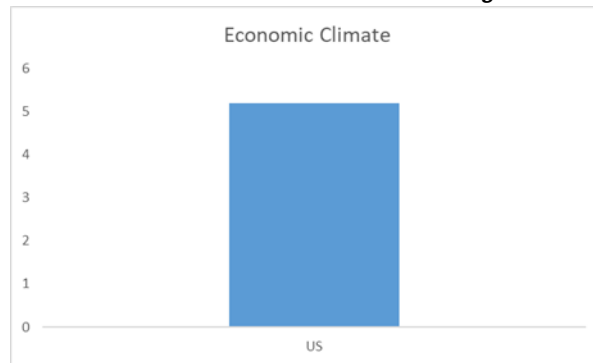
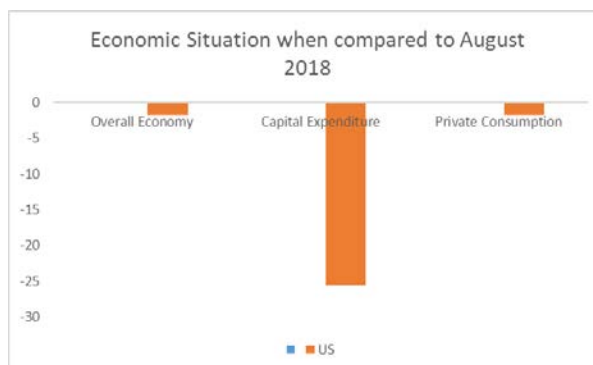


Figure 2. *Economic climate*

The preference of industrial policy over capital accumulation while imposing around 300 billion dollars' worth of tariffs on imports from China has artificially improved economic outlook in the US as can be seen in Figure 2. However, the trade war with China has put greater pressure on domestic economy such that the good performing macro economy in August 2019 is perceived to be poorly performing when compared to August 2018. The overall projections including economy, capital expenditures as well as private consumption is expected to squeeze further in 2020 when compared to 2019 and 2018 suggesting towards a recession.



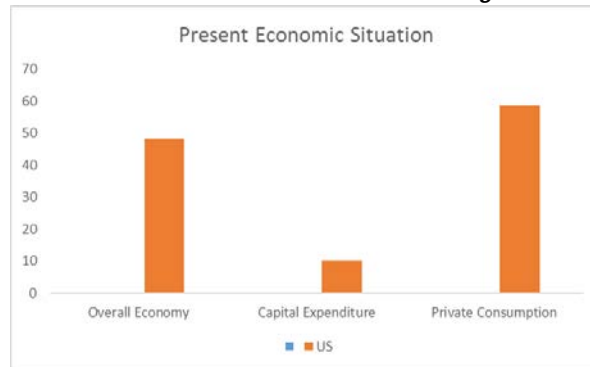


Figure 3. Economic situation in next 6 months

The negative trends in the economy are reconfirmed in Figure 4 that suggests that both exports and imports are perceived to fall down steeply yet again confirming that trade wars against China would land the US economy into a recession. Imports in next 6 months are actually expected to increase when compared to exports and the US would witness a trade deficit suggesting that GOPs trade protection would actually back fire and worsen the external sector.

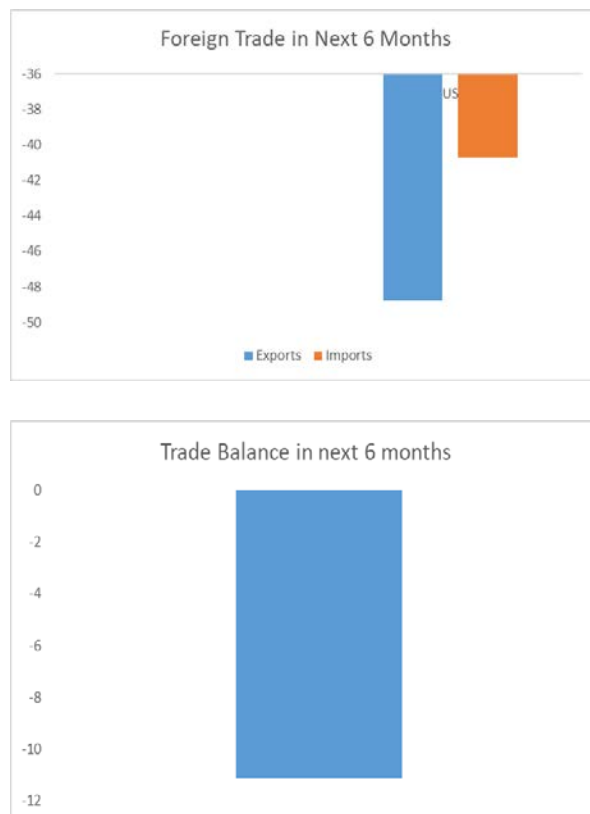


Figure 4. Foreign trade in next 6 months

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The Federal reserve is expected to respond to the slowing US economy by decreasing both short term and long term interest rates. A trade deficit along with low yields would decrease the price of dollars in terms of Chinese Yen and economic activity might pick up with some rise in domestic prices. (Conti-Brown, 2017).

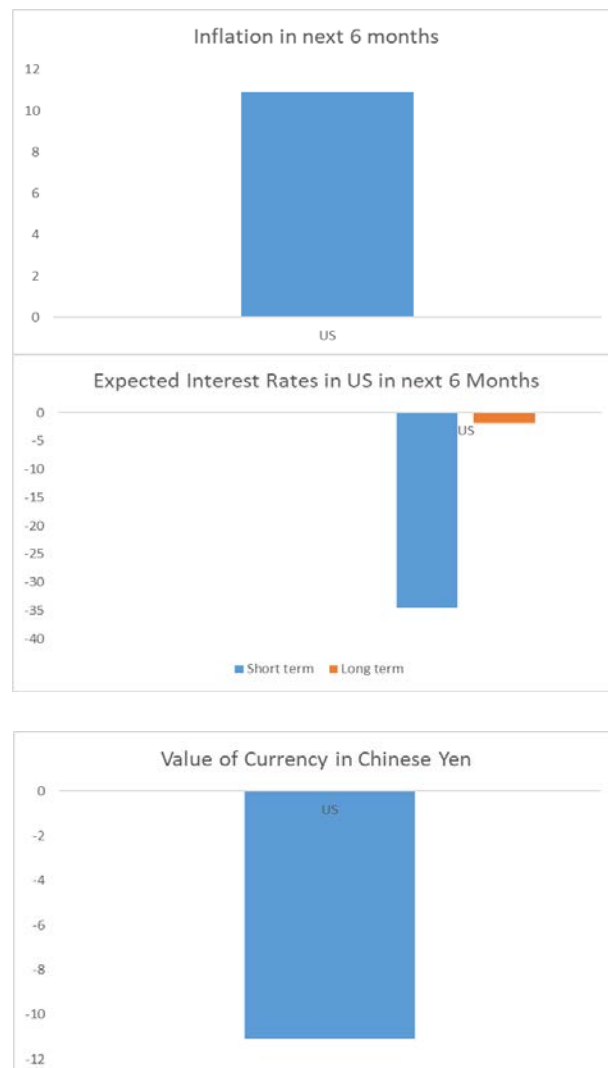


Figure 5. *Inflation in next 6 months*

3. Some contents of race neutral informal education in US

The Huntington's (2007) Clash of Civilizations has many adherents in the US and most of them are in volunteer supporters of this racist populism all due to increasing economic inequalities that are viewed to be supporting immigrants than white Americans. The spate of violence unleashed on schools in the US in recent past are not statistically significant but talks

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about increasing bias towards multi religious and multiethnic young population in the country that has traditionally brought strength to the US and its economy. The political choices of the majority of white population are moving towards a consensus on anti-immigration policies despite US known as the country of immigrants. The social, ethnic and political fabric in the country is exposed to politics of conflicting ideologies that are resentful to cultural differences rather than consolidating it to become its national strength as per historic precedence that provided freedom to participate in diverse economic, religious, cultural and social norms. The voices that mark popular political choices are choosing leaders amongst the population who are high on anti-immigrant rhetoric.

In such a scenario, informal means to re baptize the population towards greater respect towards diversity becomes as important as formal means to education. The informal education can be undertaken on social media by activists and political personalities but also the American intellectual that are so keenly followed by common Americans. An active debate among the population towards common issues of significance can be initiated on all mediums of communications that is race neutral and benefits the immigrants as well as the average Joe in general.

One of the important exercise to sensitize the youth towards respect of cultural, economic, social, religious and ethnic diversity is to bring programs of informal education to schools in the US whereby young students are engaged in a dialogue by representatives from various cultural, economic and social back grounds to enable them realize simple and common characteristics of humanity.

For example, through informal interactions, young students in schools in the US are made to realize that there are no aliens among the usual suspects among diverse US populations by raising simple identifications from their daily lives such as

A. Sometimes I may look different and sound different but overall:

1. I wear the same clothes as you do.
2. I eat the same food as you do
3. I have the same feelings as you do.
4. I speak the same language as you do.
5. I use the same technology as you do
6. I carry the same aspirations as you do
7. I love the same sports as you do
8. I have the same heroes as you do
9. I love the same music as you do

All these points represent common lifestyle of every American irrespective of religion, culture, ethnicity and color. If the young in the US understand the common aspects of all citizens irrespective of their cultural diversity, the future of the country would be built on principles of equality and respect to diversity. The impact of such informal means to reaching out to the youth in the US schools by representatives from diversified cultural

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backgrounds will enable the American society to restart a dialogue that brings back the freedom to its citizens that is somewhat taken away under populism of dissent and white supremacy movements.

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